FIRST NATIONAL BANK
OF LESOTHO LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

FIRST NATIONAL BANK OF LESOTHO LIMITED

FINANCIAL STATEMENTS
for the year ended 31 December 2016

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Bank information

Registration number:	2008/729
Registered address:	Star Lion Group Building Corner Kingsway and Parliament Road Maseru 100 Lesotho
Postal address:	P.O. Box 11902 Maseru 100 Lesotho
Auditors:	Sheeran & Associates Chartered Accountants (Lesotho)
Attorneys:	Webber Newdigate Du Preez Liebetrau & Co K. Ndebele Chambers Shale Chambers M.V. Khesuoe Chambers

FIRST NATIONAL BANK OF LESOTHO LIMITED

DIRECTORS' RESPONSIBILITY STATEMENT
for the year ended 31 December 2016

The directors of First National Bank of Lesotho Limited (the Bank) are responsible for the preparation of the annual financial statements as required by the Financial Institutions Act 2012 of Lesotho and the Companies Act of 2011. In discharging this responsibility, the directors rely on management to prepare the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and for keeping adequate accounting records in accordance with the Bank's system of internal control. As such, the annual financial statements include amounts based on judgments and estimates made by management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve significant changes to accounting policies. The financial statements incorporate full and responsible disclosure in line with the Bank's philosophy on corporate governance.

The financial statements presented on pages 10 - 71 have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Financial Institutions Act 2012 of Lesotho and the Companies Act of 2011.

The Directors are also responsible for the Bank's system of internal financial controls. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank.

These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, as well as to prevent and detect misstatement and losses. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the annual financial statements in accordance with IFRS and maintaining accountability for the Bank's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the Bank, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the net income and cash flows for the year.

The directors have reviewed the Bank's budget and flow of funds forecast and considered the Bank's ability to continue as a going concern in the light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on current available information. On the basis of this review, and in the light of the current financial position and profitable trading history, the directors are satisfied that the Bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

The independent auditors are responsible for expressing an independent opinion on the fair presentation of these annual financial statements based on their audit of the affairs of the Bank in accordance with International Standards on Auditing.

The financial statements have been audited by the independent accounting firm, Sheeran and Associates Chartered Accountants (Lesotho) which was given unrestricted access to all financial records and related data, including minutes of the Board of directors and committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. Sheeran and Associates audit report is presented on pages 8 - 9.

The financial statements were approved by the Board of directors on the 15th March 2017 and are signed on its behalf by:

LJ Haynes

L.J. Haynes
Chairman

M.A. Knollys
Chief Executive Officer

DIRECTORS' REPORT
for the year ended 31 December 2016

The directors of First National Bank of Lesotho Limited (the Bank) have pleasure in submitting this report, which forms part of the annual financial statements for the year ended 31 December 2016.

Nature of business

The Bank is registered in Lesotho and operates as a financial institution.

Financial results

Full details of the financial results for the period are set out on pages 10 to 71.

Events subsequent to reporting date

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

Dividends

The directors recommend that a dividend not be paid in respect of the period under review.

Appointment of auditors

As a result of the decision taken by the directors at the Board meeting held on the 18th March 2016, Sheeran and Associates Chartered Accountants (Lesotho) were re-appointed as auditors for the financial year under review.

Corporate governance

The directors of the Bank are committed to good corporate governance practices and organisational integrity in the direction, control and stewardship of the Bank's affairs.

Directors of the Board

		Appointed
L.J. Haynes*	Chairman	20 April 2009
W. Adams*	Member	20 Jun 2016
G. Usher*	Member	08 March 2016
M.A. Knollys***	Member	01 September 2015
W.A. Herbert**	Member	20 April 2009
P. Molapo**	Member	14 May 2013
T.A. Bohloa**	Member	14 May 2013
M. Posholi**	Member	01 February 2016
T. Tsita-Mosena**	Member	03 February 2016
I. Leyenaar**	Member	21 October 2016
L. Lerotholi-Seeiso**	Member	01 February 2016

Audit Committee

W. Adams*	Chairman
G. Usher*	Member
W.A. Herbert**	Member
P. Molapo**	Member
T.A. Bohloa**	Member
I. Leyenaar**	Member

Directors Affairs and Governance Committee

L.J. Haynes*	Chairman
W. Adams*	Member
P. Molapo**	Member
I. Leyenaar**	Member

Remuneration Committee

L.J. Haynes*	Chairman
W.A. Herbert**	Member
T.A. Bohloa**	Member
W. Adams*	Member
P. Massyn****	Member

Risk, Capital and Compliance Committee

T. Bohloa*	Chairman
W.A. Herbert**	Member
W. Adams*	Member
L.J. Haynes*	Member
P. Molapo**	Member
G. Usher*	Member
I. Leyenaar**	Member
M.A. Knollys***	Member

Senior Credit Risk Committee

P. Molapo**	Chairman
T. Bohloa**	Member
W. Herbert**	Alternate Director
L.J. Haynes*	Alternate Director
M.A. Knollys***	Member

*	Non Executive Director
**	Independent Non Executive Director
***	Chief Executive Officer
****	Group Executive who is not a member of the Board

Senior Management

The senior managers of First National Bank of Lesotho Limited as at the end of the year were as follows:

M.A. Knollys	Chief Executive Officer
M.Mopeli	Deputy Chief Executive Officer
L. Mpiti	Chief Operations Officer
Vacant	Chief Financial Officer
A. Black	Head of Business
M. Marakabei	Head of WesBank
Vacant	Head of Retail Banking
V.G. Yende	Head of Credit
S.I. Phoohlo	Head of Risk
T. Chale	Head of Internal Audit
M. Fusi-Mofokeng	Head of Human Resources
M. Ramaili	Head of Legal and Compliance
M. Phomane	Head of Marketing
M. Tsosane	Head of Corporate

Holding company

The entity's holding company is FirstRand EMA Holdings Limited and the ultimate holding company is FirstRand Limited, incorporated in the Republic of South Africa.

AUDIT COMMITTEE REPORT
for the year ended 31 December 2016

The Audit Committee is pleased to present this report for the financial year ended 31 December 2016 in line with the recommendations of the King III report on corporate governance.

The Audit Committee is an independent committee appointed by the Board of directors and performs its functions on behalf of the Board of First National Bank of Lesotho Limited.

Audit Committee terms of reference

The Audit Committee has adopted formal terms of reference as contained in the committee charter that have been approved by the Board of directors. The committee has conducted its affairs in compliance with these terms of reference and has discharged its responsibilities contained therein.

Audit Committee members and meeting attendance

The Audit Committee is independent and consists of four independent non-executive directors and two non-executive directors. It meets at least four times per annum, with authority to convene additional meetings as circumstances require.

The Chairman of the Board, the executive director, external auditors, internal auditors, senior management and other assurance providers attend meetings by invitation only.

Role and responsibilities

The Audit Committee carried out its functions through the Audit Committee meetings and discussions with executive management and internal audit function.

Duties

The Audit Committee's role and responsibilities include statutory duties as per the Financial Institutions Act of 2012, the Companies Act of 2011 and further responsibilities assigned to it by the Board. The Audit Committee has executed its duties in terms of the recommendations of King III.

The Audit Committee is satisfied that it has complied with its legal, regulatory and other responsibilities.

External auditor appointment and independence

The Audit Committee has satisfied itself that the external auditors, Sheeran and Associates Chartered Accountants (Lesotho), are independent of the Bank and have ensured that their appointment has complied with the Companies Act of 2011.

The committee, in consultation with senior management, agreed to the engagement letter, terms, audit plan and budgeted fees of the external auditors for the year ended 31 December 2016.

Financial statements and accounting practices

The Audit Committee has reviewed the accounting policies and the financial statements of the Bank and is satisfied that they are appropriate and comply with International Financial Reporting Standards and the Companies Act of 2011.

Internal financial controls

The Audit Committee has reviewed the process by which internal audit performs its assessment of the effectiveness of the Bank's system of internal controls, including internal financial controls. Nothing has come to the attention of the committee to indicate any material breakdown in the Bank's system of internal financial control. The Audit Committee is satisfied with the effectiveness of the Bank's internal financial controls.

Duties assigned by the Board

In addition to the statutory duties of the Audit Committee, as reported above, the Board of directors has determined further functions for the Audit Committee to perform. These functions include the following:

- Going concern

The Audit Committee reviews the going concern status of the Bank and makes recommendations to the Board.

AUDIT COMMITTEE REPORT
for the year ended 31 December 2016

Duties assigned by the Board (continued)

- Governance of risk

The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and Information Technology risks as it relates to financial reporting.

- Internal audit

The Audit Committee is responsible for ensuring that the Bank's Internal Audit function is independent and has the necessary resources, standing and authority within the Bank's to enable it to discharge its duties.

- Evaluation of the expertise and experience of the Chief Financial Officer and finance function

The Audit Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. The Audit Committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function, and experience of the members of management responsible for the financial function.

On behalf of the audit committee;

W. Adams
Chairman, audit committee
15th March 2017

FIRST NATIONAL BANK OF LESOTHO LIMITED

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

M' 000	Notes	**31 December 2016**	31 December 2015
Interest and similar income	3.1	**154 870**	115 892
Interest expense and similar charges	3.2	**(40 400)**	(36 622)
Net interest income before impairment of advances		**114 470**	79 270
Impairment of advances	4	**(25 245)**	(8 945)
Net interest income after impairments of advances		**89 225**	70 325
Non interest revenue	5	**170 732**	142 637
Income from operations		**259 957**	212 962
Operating expenses	6	**(220 608)**	(189 528)
Profit before tax		**39 349**	23 434
Income tax expense	9	**(9 889)**	(5 359)
Profit for the period		**29 460**	18 075
Other comprehensive income		**-**	-
Total comprehensive income for the period		**29 460**	18 075

FIRST NATIONAL BANK OF LESOTHO LIMITED

STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

M' 000	Notes	**31 December 2016**	31 December 2015
ASSETS			
Cash and cash equivalents	7	**372 207**	330 217
Investments securities and other investments	8	**174 931**	170 561
Advances	10	**777 218**	645 799
Accounts receivable	11	**4 672**	13 520
Amounts due by holding company and fellow subsidiary companies	12	**369 602**	276 459
Property and equipment	13	**49 747**	46 840
Deferred income tax asset	14	**13 462**	7 162
Total assets		**1 761 840**	1 490 558
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	15	**45 873**	52 903
Current tax liability		**12 536**	5 234
Deposits	16	**1 461 815**	1 260 277
Long term liabilities	17	**2 757**	3 067
Amounts due to holding company and fellow subsidiary companies	12	**76 069**	35 748
Total liabilities		**1 599 050**	1 357 229
Equity			
Capital and reserves attributable to ordinary equity holders			
Ordinary shares	24	**39 124**	39 124
Share premium	24	**9 109**	9 109
Reserves		**114 556**	85 096
Total equity		**162 790**	133 329
Total equity and liabilities		**1 761 840**	1 490 558

FIRST NATIONAL BANK OF LESOTHO LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

M' 000	Share capital and share premium	General risk reserve*	Retained Earnings	Reserves attributable to ordinary equity holders	Total equity
Balance as at 31 December 2014	48 233	5 353	61 668	67 021	115 254
Current year movement	-	1 237	(1 237)	-	-
Total comprehensive income for the year	-	-	18 075	18 075	18 075
Balance as at 31 December 2015	**48 233**	**6 590**	**78 506**	**85 096**	**133 329**
Current year movement	**-**	**1 553**	**(1 553)**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**29 460**	**29 460**	**29 460**
Balance as at 31 December 2016	**48 233**	**8 144**	**106 413**	**114 556**	**162 790**

** This reserve is kept as part of the reserve as required by the Financial Institutions Act 2012 and used as part of the general debt provision.*

FIRST NATIONAL BANK OF LESOTHO LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

M' 000	Notes	**31 December 2016**	31 December 2015
Cash flows from operating activities			
Cash receipts from customers	18.2	**325 602**	258 529
Cash paid to customers, suppliers and employees	18.3	**(245 320)**	(213 110)
Cash generated from operating activities	18.1	**80 282**	45 419
Increase in income earning assets	18.4	**(168 853)**	(280 849)
Increase in deposits and other liabilities	18.5	**195 370**	216 001
Tax paid	18.6	**(8 888)**	(10 282)
Net cash generated/(utilised by) from operating activities		**97 911**	(29 711)
Cash flows from investing activities			
Capital expenses to maintain operations		**(17 141)**	(23 412)
Proceeds from sale of assets		**86**	23
Net cash outflow from investing activities		**(17 055)**	(23 389)
Cash flows from financing activities			
Actual share based payment		**(2 770)**	(1 428)
Net cash inflow from financing activities		**(2 770)**	(1 428)
Decrease in cash and cash equivalents		**78 087**	(54 528)
Cash and cash equivalents at the beginning of the year	18.7	**389 408**	443 936
Cash and cash equivalents at the end of the year	18.7	**467 494**	389 408

1. INTRODUCTION

The Bank adopts the following accounting policies in preparing its financial statements. These policies have been consistently applied to all years presented, unless otherwise stated.

1.1 Basis of presentation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies are consistent in all material respects with those adopted in the previous year. There were no revised or new standards adopted in the current or prior year that had an effect on the bank's reported earings, financial position, or reserves or material impact on the accounting policies.

The Bank prepares its financial statements in accordance with the going concern principle using historical cost basis, except for the following assets and liabilities:
- financial assets and financial liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments designated as at fair value through profit and loss;
- cash-settled share-based payment liabilities; and
- employee benefit liabilities, valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 1.18.

All monetary information and figures presented in these financial statements are stated in thousands of Lesotho maloti (M'000), unless otherwise indicated.

1.2 Interest income and expense

The Bank recognises interest income and expense in profit or loss for financial instruments measured at amortised cost using the effective interest rate method. When calculating the effective interest rate method, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income or expenses on financial instruments designated at fair value through profit or loss are included in fair value income within non-interest revenue except to the extent that the interest relates to:
- the Bank's funding operations;
- items to which hedge accounting is applied; and
- interest on intercompany balances.

From an operational perspective, the Bank suspends the accrual of contractual interest on non-performing advances subject to certain curing assumptions. However, in terms of IAS 39, interest income on impaired advances is recognised at the original effective interest rate.

Interest on available for sale debt instruments is recognised as part of interest income, based on the instruments original effective interest rate using the effective interest rate method.

Instruments with characteristics of debt, such as redeemable preference shares, are included in advances or long-term liabilities. Where these instruments are measured at amortised cost, dividends received or paid on these instruments are included in the cash flows used to determine the effective interest rate of the instrument.

1.3 Fair value gains and losses

The Bank includes profits or losses, fair value adjustments, interest on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as trading related financial instruments designated at fair value through profit or loss, in order to eliminate an accounting mismatch, as fair value income in non-interest revenue. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Bank's funding requirements.

1.4 Net fee and commission income

1.4.1 Fee and commission income

The Bank generally recognises fee and commission income within non-interest revenue on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments and not as non-interest revenue.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated as follows:

- fees for services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example, banking fee and commission income, and asset management and related fees;

1.4 Net fee and commission income (continued)
1.4.1 Fee and commission income (continued)

• fees earned on the execution of a significant act, for example, knowledge-based fee and commission income and non-banking fee and commission income, when the significant act has been completed; and

• commission income on acceptances, bills and promissory notes endorsed is credited to profit or loss over the lives of the relevant instruments on a time apportionment basis.

1.4.2 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income and are recognised in non-interest revenue. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

1.5 Foreign currency translation
1.5.1 Functional and presentation currency

The financial statements are presented in Lesotho maloti, which is the functional and presentation currency of the Bank.

1.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies and recognised on the statement of financial position at the reporting date are translated into the functional currency as follows:
• monetary assets and liabilities are translated at the year-end exchange rates;
• non-monetary assets and liabilities carried at historical cost are translated at the historical transaction date rate; and
• non-monetary assets and liabilities carried at fair value are translated at the rate at the date the fair value is determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign denominated assets and liabilities at the year-end exchange rates are recognised in profit or loss, except for:
• exchange differences on monetary items qualifying as hedging instruments in effective cash flow hedges, which are deferred in other comprehensive income as qualifying cash flow hedges;
• translation differences on non-monetary items, such as equities classified as available-for-sale, which are reported as part of the fair value gains or losses and are included in other comprehensive income; and
• monetary debt securities denominated in foreign currency classified as available-for-sale. Changes in fair value on such items are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

Foreign exchange gains and losses on the translation of both monetary and non-monetary items that are recognised at fair value through profit or loss are reported as part of the fair value income in non-interest revenue. Translation differences on non-monetary items, such as equities classified as available-for-sale, is reported as part of the fair value adjustment and are included in other comprehensive income.

1.6 Taxation
1.6.1 Indirect tax

Indirect taxes include other taxes paid to the government, including securities transfer tax.

1.6.2 Income tax

Income tax includes Lesotho and foreign jurisdiction corporate tax payable.

The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date, in Lesotho.

1.7 Recognition of assets
1.7.1 Assets

The Bank recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the Bank.

1.7.2 Contingent assets

The Bank discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control.

1.8 Liabilities, provisions and contingent liabilities
1.8.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:
- it has a present legal or constructive obligation as a result of past events,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate of the amount of the obligation can be made.

1.8 Liabilities, provisions and contingent liabilities (Continued)
1.8.1 Liabilities and provisions (Continued)
Where there are a number of similar obligations, the likelihood that an outflow will be required upon settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Present obligations arising under onerous contracts are recognised and measured as provisions.

Provision of advances in accordance with IFRS are expensed through the income statement and credited to the loan book (advances). The top-up to the minimum level of general provision is a transfer from retained earnings to a general risk reserve.

1.8.2 Contingent liabilities
The Bank discloses a contingent liability when:
- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- it has a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources will be required to settle an obligation, or
- the amount of the obligation cannot be measured with sufficient reliability.

1.9 Cash and cash equivalents
In the statement of cash flows, cash and cash equivalents comprise:
- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances with other banks.

All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

1.10 Financial instruments
1.10.1 General
Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint venture companies, commodities, property and equipment, assets and liabilities of insurance operations, deferred income tax, tax payable, intangible assets, post-employment liabilities, non-current assets and disposal groups held for sale and provisions. The Bank recognises a financial asset or financial liability on its statement of financial position when and only when, it becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Financial liabilities are classified in the following categories:
- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition.

Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method less any impairment losses.

The Bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

1.10.1.1 Financial assets at fair value through profit or loss
This category has two sub-categories: financial instruments held for trading, and those designated at fair value through profit or loss on initial recognition.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

1.10.1.1 Financial assets at fair value through profit or loss(Continued)

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:
- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- the group of financial assets and/or financial liabilities is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and financial liabilities designated at fair value through profit or loss under (i) are various advances to customers, structured notes and other investments held by the investment banking division. These financial instruments have been designated at fair value through profit or loss to eliminate the accounting mismatch between these assets and the underlying derivatives used to manage the risk arising from these assets. If the assets were not designated at fair value through profit or loss, a mismatch would arise as a result of the assets being recognised at amortised cost and the related derivatives being recognised at fair value.

Financial instruments designated under (ii), include certain private equity and other investment securities.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss as fair value gains or losses in non-interest revenue in the period in which they arise.

1.10.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
• those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
• those that the Bank upon initial recognition designates as available-for-sale; or
• those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available-for-sale.

This category also includes purchased loans and receivables, where the Bank has not designated such loans and receivables in any of the other financial asset categories.

1.10.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells more than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available for sale.

The Bank carries held-to-maturity financial assets and investments at amortised cost using the effective interest rate method, less any impairment losses.

1.10.1.4 Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Bank recognises gains and losses arising from changes in the fair value of available-for-sale assets, in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in the statement of comprehensive income. When the available-for-sale assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and included in profit or loss as gains less losses from investment activities within non-interest revenue.

When the available-for-sale assets are disposed of or impaired, the related accumulated fair value adjustments are reclassified from other comprehensive income and included in profit or loss as gains less losses from investing activities within non-interest revenue. Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit or loss, are classified as available-for-sale.

1.10.1.5 Classification of financial liabilities, equity instruments and compound instruments

The Bank classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Bank after the deduction of liabilities.

Compound instruments are those financial instruments that have components of both financial liabilities and equity. At initial recognition the compound financial instruments are split into their separate components and accounted for as financial liabilities or equity as appropriate. The Bank separately measures and recognises the fair value of the debt component of an issued convertible bond as a financial liability, with the residual value allocated to equity.

1.10.1.5 Classification of financial liabilities, equity instruments and compound instruments(Continued)

The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

1.10.1.6 Measurement of financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest expense is recognised in profit or loss over the period of the borrowing using the effective interest rate method. Refer to accounting policies 1.2 and 1.3 for the accounting treatment applied to interest expense and fair value gains or losses respectively.

The Bank calculates interest on the liability component of compound financial instruments based on the market rate for a non-convertible instrument at the inception thereof.

1.10.2 Offsetting financial instruments

The Bank offsets financial assets and liabilities and presents the net balance in the statement of financial position where:
- there is a currently enforceable legal right to set off the amounts; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The right of set-off is considered to be currently enforceable if the following conditions are met:
- the right is not contingent on a future event; and
- it is legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and
    - in the event of insolvency or bankruptcy of the entity and all of the counterparties.

1.10.3 Derecognition of financial assets and liabilities

The Bank derecognises a financial asset when the contractual rights to the asset expires, or where there is a transfer of the contractual rights to receive cash flows of the financial asset and substantially all of the risks and rewards related to ownership of the financial asset are transferred, or the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.
Where the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank continues to recognise the financial asset in its entirety and recognises a financial liability for the consideration received. These financial assets and the related financial liabilities may not be offset.

Where the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank shall determine whether it has retained control of the financial asset. In this case:
(i) if the Bank has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
(ii) if the Bank has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Bank derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Where the Bank purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income within non-interest revenue.

1.11. Impairments of financial assets

1.11.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

1.11.2 Assets carried at amortised cost

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss events has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

1.11.2 Assets carried at amortised cost(Continued)

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Bank about the following events:
• significant financial difficulty of the issuer or debtor;
• a breach of contract, such as a default or delinquency in payments;
• it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
• the disappearance of an active market for that financial asset because of financial difficulties; or
• observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
- adverse changes in the payment status of issuers or debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether we elect to foreclose or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

1.11.3 Past due advances

Advances are considered past due in the following circumstances:
- loans with a specific expiry date (e.g. term loans etc) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue when one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- a loan payable on demand (e.g. overdrafts) is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

1.11.4 Renegotiated advances

Financial assets that would otherwise be past due that have been renegotiated, are separately classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the Bank granted a concession where original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired, the adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as performing unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

1.11.5 Repossessed assets

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed assets are measured at the lower of cost or net realisable value. The Bank recognises repossessed assets as part of accounts receivable in the statement of financial position.

1.11.6 Available-for-sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss on that financial asset is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

1.12 Property and equipment

The Bank carries property and equipment at historical cost less depreciation and impairment losses, except for land which is carried at cost less impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

carrying amount of any replacement part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Leasehold improvements are all improvements made to property which the Bank leases under an operating lease in order to prepare the property for its intended use and from which the Bank is expected to benefit for more than one year. Leasehold improvements are capitalised as property and equipment.

Property and equipment is depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are further broken down into significant components that are depreciated to their respective residual values over economic lives of these components.

The periods of depreciation used are as follows:

a) Leasehold premises	Shorter of estimated life or period of lease
b) Freehold property and property held under finance lease:	
- Buildings and structures	50 years
- Mechanical and Electrical	20 years
- Components	20 years
- Sundries	20 years
c) Computer equipment	3 - 5 years
d) Furniture and fittings	3 - 10 years
e) Motor vehicles	5 years
f) Office equipment	3 - 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

1.12 Property and equipment(Continued)

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss on disposal.

1.13 Leases
1.13.1 The Bank is the lessee
1.13.1.1 Finance leases

The Bank classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a constant rate of interest on the balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period in interest expense. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the Bank will take ownership of the assets, in which case the assets are depreciated over shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

1.13.1.2 Operating leases

The Bank classifies leases as operating leases, where the lessor effectively retains the risks and rewards of ownership of the leased asset. The Bank recognises operating lease payments as an operating expense in profit or loss on a straight-line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year-end are reflected under commitments.

The Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

1.13.2 The Bank is the lessor
1.13.2.1 Finance leases

The Bank recognises as advances assets sold under a finance lease at the present value of the lease payments receivable. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Unearned finance income is recognised as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

1.13.2.2 Operating leases

The Bank includes assets held under operating lease as a separate category of property and equipment. The Bank depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised as other non-interest revenue on a straight-line basis over the lease term.

1.13.3 Installment sale agreements

The Bank regards installment sale agreements as financing transactions and includes the total rentals and installments receivable, less unearned finance charges, in advances.

The Bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

1.14 Deferred Income tax

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting profit or loss nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Bank recognises deferred income tax assets if it is probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post retirement benefits and tax losses carried forward.
The Bank reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax related to fair value re-measurement of available-for-sale investments and derivative designated as hedging instruments in effective cash flow hedges, which are recognised directly in other comprehensive income, is also recognised directly to other comprehensive income. Deferred tax directly recognised in other comprehensive income is subsequently reclassified to profit or loss at the same time as the related gain or loss.

1.14 Deferred Income tax (continued)

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and these relate to income taxes levied by the same tax authority on the same taxable entity. If the balances relate to the same tax authority but different tax entities, the Bank will offset only if it has a legally enforceable right and the entities intend to settle on a net basis or the tax assets and liabilities will be realised simultaneously.

1.15 Employee benefits

1.15.1 Post-employment benefits

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

These funds are registered in terms of the applicable laws and regulations in Lesotho, and membership is compulsory for all Bank employees.

1.15.2 Termination benefits

The Bank recognises termination benefits as a liability in the statement of financial position and as an expense in profit and loss when it has a present obligation relating to termination. The Bank has a present obligation at the earlier of when the Bank can no longer withdraw offer of the termination benefit and when the Bank recognises any related restructuring costs.

1.15.3 Leave pay provision

The Bank recognises a liability for the employees' rights to annual leave in respect of past service.

1.15.4 Bonuses

The Bank recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

1.16 Share capital

1.16.1 Share issue costs

Instruments issued by the Bank are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity, net of any related tax benefit.

1.16.2 Dividends paid

Dividends on ordinary shares are recognised against equity and a corresponding liability is recognised when they have been appropriately approved by the Bank's shareholder and are no longer at the discretion of the entity. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

1.17 Share-based payment transactions

The Bank operates cash settled share-based compensation plans.

The Bank measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The Bank remeasures the fair value of the liability at each reporting date until settlement. The liability is recognised over the vesting period and any changes in the liability are recognised in profit or loss.

1.18 Critical accounting estimates and judgments in applying accounting policies

In preparing the financial statements, the Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior years.

(a) Credit impairment losses on Advances

The Bank continuously assesses its credit portfolios for impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

Performing loans

The impairment provision on the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred but not reported (IBNR) provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

1.18 Critical accounting estimates and judgments in applying accounting policies (continued)
(a) Credit impairment losses on Advances (continued)
Performing loans (continued)

(ii) The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the sub segment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio. The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB Retail and WesBank portfolios the account status, namely arrears versus non arrears status, is taken as a primary indicator of an impairment event. In the FNB Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

In terms of the Financial Institutions Act 2012, the minimum level of general provision equivalent to 2% of the pass category should be maintained. The total general portfolio is maintained at 2% inclusive of the impairment calculated on the pass book as discussed above.

Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators. Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for FNB Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 4 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

(b) Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires considerable judgment. In making this judgment, The Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances defined by the Bank it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortised cost.

(c) Income taxes

The Bank is subject to direct tax in Lesotho. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

1.18 Critical accounting estimates and judgments in applying accounting policies(Continued)

(c) Income taxes(Continued)

Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to set off.

(d) *Revenue recognition*

Management needs to apply judgement to determine whether the Bank acts as a principal or agent in certain revenue generating transactions. If the Bank acts as an agent, the gross economic benefits include amounts collected on behalf of the principal and do not result in increases in the equity of the Bank. The amount collected on behalf of the principal is not recognised as the revenue of the Bank, instead the Bank recognises the fee or commission that it earns while acting as an agent as non-interest income.

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with selling the goods or providing the services. The Bank considers the following as indicators when assessing whether the Bank is acting as a principal in a transaction:

- the Bank has the primary responsibility of providing the goods or services;
- the Bank carries the inventory risk;
- the Bank has the ability to establish the price, either directly or indirectly; and
- the Bank bears the customer's credit risk.

1.19 Standards and interpretations issued but not yet effective

The Bank will comply with the following new standards and interpretations from the stated effective date:

		Effective date
IFRS 15	**Revenue** IFRS 15 provides a single, principle-based model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also provide guidance for transactions that were not previously comprehensively addressed and improve guidance for multiple-element arrangements. The standard also introduces enhanced disclosures about revenue. The Bank is in the process of assessing the impact that IFRS 15 will have on the financial statements. Until the process has been completed, the Bank is unable to determine the significance of the impact.	Annual periods commencing on or after 1 January 2017
IFRS 16	**Leases** IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The Bank is in the process of assessing the impact that IFRS 16 will have on the financial statements. Until the process has been completed, the bank is unable to determine the significance of the impact.	Annual periods commencing on or after 1 January 2019
IAS 7	**Amendments to IAS 7 under the Disclosure Initiative** The amendments to IAS 7 require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are applicable prospectively and will have no impact on the bank but introduce additional disclosures.	Annual periods commencing on or after 1 January 2017
IAS 12	**Amendments to IAS 12 for the Recognition of Deferred Tax** The amendments clarify that unrealised losses on debt instruments that are measured at fair value for accounting purposes but at cost for tax purposes, can give rise to deductible temporary differences and consequently a deferred tax asset may need to be recognised. The carrying amount of the asset does not limit the estimation of probable future taxable profits. These amendments are to be applied retrospectively in the 2017 financial year The bank is in the process of assessing the impact of this amendment on the annual financial statements.	Annual periods commencing on or after 1 January 2017
IAS 28 (amended) and IFRS 10	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** The amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture. The amendment requires: • full recognition in the investor's financial statements of the gains or losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3); and • the partial recognition of gains or losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' share in that associate or joint venture. These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves The amendments are applicable prospectively and the bank will assess the impact of the amendment on each transaction as and when they occur.	The effective date is currently being reviewed by the IASB and will most likely be deferred indefinitely until the completion of a research project on the equity method of accounting conducted by the IASB.

1.19 Standards and interpretations issued but not yet effective (continued)

IFRS 2	**Classification and Measurement of Share-Based Payment Transactions** As a result of work by the IFRS Interpretations Committee, several amendments have been made to IFRS 2 to clarify how to account for certain share-based payment transactions The amendments to IFRS 2 are related to the following areas: •Accounting for the effects of vesting and non-vesting conditions on the measurement of the liability for cash settled share based payment transactions; •The classification of share based payment transactions with net settlement features for withholding tax obligations; and •Accounting for a modification to the terms and conditions of a share based payment that changes the transaction from cash settled to equity settled. The bank currently only has cash-settled share-based payment schemes. The first two amendments will be applied retrospectively while the third amendment will be applied prospectively to any modifications made on or after the adoption date. The bank does not expect the retrospective amendments to have a material impact on the schemes currently in place as the group is already accounting for these items in line with the clarifications and the accounting of any modifications will be considered when they take place	Annual periods commencing on or after 1 January 2018
IFRS 4	**Applying IFRS 9 with IFRS 4** The IASB issued the Annual Improvements 2012-2014 Cycle. The annual improvements project includes amendments to the following standards IFRS 5, IFRS 7, IAS19 and IAS 34. The annual improvement project's aim is to clarify and improve accounting standards. The amendment introduces two approaches: •Reporting entities that issue insurance contracts may recognised in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied prior to the new insurance contracts standard; •Reporting entities whose activities are predominantly connected with insurance are temporarily exempt from applying IFRS 9 and will continue to apply IAS 39 until the new insurance contracts standard is issued. The bank will apply IFRS 9 for annual periods commencing on or after 1 January 2018 and the two approaches made available under this amendment will not be elected and the amendment will therefore have no impact on the bank.	Annual periods commencing on or after 1 January 2018
IFRS 9	**Financial Instruments** IFRS 9 incorporates amendments to the classification and measurement guidance as well as accounting requirements for impairment of financial assets measured at amortised cost and the general hedge accounting model. The significant amendments are: •The classification and measurement of financial assets under IFRS 9 is based on both the business model and the rationale for holding the instruments as well as the contractual characteristics of the instruments. •Impairments in terms of IFRS 9 will be determined based on an expected loss model that considers significant changes to the asset's credit risk and the expected loss that will arise in the event of default. •The classification and measurement of financial liabilities is effectively the same as under IAS 39 i.e. IFRS 9 allows financial liabilities not held for trading to be measured at either amortised cost or fair value. If, however, fair value is elected then changes in the fair value as a result of changes in own credit risk should be recognised in other comprehensive income.. •The general hedge accounting requirements under IFRS 9 are closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. Hedge effectiveness will now be proved based on management's risk management objectives, rather than the 80%-125% band that was previously stipulated. IFRS 9 also allows for rebalancing of the hedge and deferral of costs of hedging. IFRS 9 does not include requirements that address the accounting treatment of macro hedges. The bank is well positioned to implement IFRS 9 for the financial year ending 30 June 2019. In order to prepare for the implementation, the bank has constituted a steering committee which is supported by a number of working groups. The working groups have made sound progress in setting, inter alia, the accounting policies, determining the classification of instruments under IFRS 9, developing pilot models for credit modelling, and designing reporting templates.	Annual periods commencing on or after 1 January 2018

1.19 Standards and interpretations issued but not yet effective (continued)

IFRS 9	**Financial Instruments (continued)** The impact is expected to be significant however the development of models is still in the early stages and subject to validation. It is therefore not possible to provide an accurate indication of what the amount will be.	

2. FINANCIAL RISK MANAGEMENT

By its nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

2.1 Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by senior management. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-statement of financial position exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

The Bank has an established credit process involving delegated approval authorities as well as credit procedures by the Bank's management. The objective of this process is to build and maintain high quality risk assets whilst extracting accountability. At transaction level, independent credit officials will originate credit proposals, to ensure early compliance with centrally approved credit risk policies and guidelines. Transactions will be sanctioned by a credit official with the necessary authority that will be based on a Maloti amount, product risk rating and expertise.

The Bank pays special attention to the management of problem credits that are identified at an early stage by a system-based categorisation procedure. Such a procedure facilitates prudential and timely provisioning policies.

The Bank applies credit application and reference checks when granting instalment credit to the personal (consumer) sector. To avoid excessive risk concentration and to ensure the application of common prudential standards and practices across the Bank, credit risk limits to significant counterparties in the various sectors are centrally managed. Risk characteristics pertaining to industrial sectors are incorporated in the credit risk management process and, thereafter, related to prudential limits.

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk of statement of financial position and off balance sheet financial instruments before taking account of any collateral held.

M' 000	**31 December 2016**	31 December 2015
Cash and short term funds		
Balances with Central bank	**110 368**	42 994
Balances with other banks	**115 619**	155 821
Balances with holding company	**369 602**	276 459
Advances	**809 952**	657 563
Investments securities and other investments	**174 931**	170 561
Accounts receivable	**4 672**	13 520
Financial and other guarantees	**60 003**	21 656
Loan commitments not drawn	**59 447**	76 931
Maximum exposure	**1 704 594**	1 415 505

2. Financial risk management (continued)

2.1 Credit risk (continued)

Credit quality

The table below presents an analysis of the credit quality of neither past due nor impaired advances.

M' 000	**31 December 2016**	31 December 2015
Total neither past due nor impaired		
FR 1 - 14*	**11 168**	12 063
FR 15 - 25*	**118 724**	116 202
FR 26 - 32*	**52 729**	24 548
FR 33 - 39*	**128 218**	82 365
FR 40 - 53*	**124 078**	104 905
FR 54 - 83*	**194 390**	171 375
FR 84 - 90*	**47 706**	101 123
FR 91 - 99*	**42 442**	12 469
Total	**719 457**	**625 050**

** Credit quality is a measure on an FR scale of 1 to 100, 1 being clean or low risk customer and 100 being highest risk customer.*

Credit quality of financial assets other than advances neither past due nor impaired.

	31 December 2016				
M' 000	**Treasury bills**	**Treasury bonds**	**Cash and short term funds**	**Accounts receivable**	**Total**
National equivalent:					
BB +	**105 292**	**69 640**	**225 988**	**3 850**	**404 769**
Amounts which have no rating			**-**		**-**
Total	**105 292**	**69 640**	**225 988**	**3 850**	**404 769**

	31 December 2015				
M' 000	Treasury bills	Treasury bonds	Cash and short term funds	Accounts receivable	Total
National equivalent:					
BB -	121 398	49 163	198 819	13 520	382 900
Amounts which have no rating			(4)		(4)
Total	121 398	49 163	198 815	13 520	382 896

Age analysis of Advances was as follows:

	31 December 2016					
M' 000	**Neither past due nor impaired**	**1 - 30 days**	**31 - 60 days**	**>60 days**	**Impaired**	**Total**
Advances	**719 457**	**40 457**	**12 829**	**-**	**37 208**	**809 952**
Total	**719 457**	**40 457**	**12 829**	**-**	**37 208**	**809 952**

	31 December 2015					
M' 000	Neither past due nor impaired	1 - 30 days	31 - 60 days	>60 days	Impaired	Total
Advances	625 050	9 900	7 053	-	15 560	657 563
Total	625 050	9 900	7 053	-	15 560	657 563

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, mortgages, instalment sale products and personal loans.

2. Financial risk management (continued)

2.1 Credit risk (continued)

Credit risk mitigation

Collateral is an important mitigant of credit risk. In accordance with the Bank's credit risk management strategy the following principle types of collateral are held as security for monies lent by Bank:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued.

Where more than 1/3 of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, title over vehicles are held by the Bank. Title only passes to the customer once repayments reach a specified level.

- Property finance: Collateral consists of first and second mortgages over property, employer and personal guarantees, loss insurance purchased by the client. The collateral can only be sold or exercised on default by the customer.

- Personal loans and overdrafts exposures are generally unsecured or secured via guarantees and suretyships.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non performing loan or when the Bank is to sell the asset on auction.

No physical valuation is performed between these two dates.

The valuation at inception is based on physical inspection or index valuation methods. Updated valuations are performed using index valuation models or by revaluing security during the counterparty review process for SME and large corporate counter parties.

2. FINANCIAL RISK MANAGEMENT (continued)

2.2 Currency risk

The Bank has limited exposure to currency risk as the risks relating to foreign currency transactions is mitigated by an agreement between the Bank and its head office in South Africa.

2.3 Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

The table below summarises the Bank's exposure to interest rate risk, categorised by contractual repricing date.

	31 December 2016						
M' 000	Call	1 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	115 619	-	-	-	-	256 588	372 207
Cash and balances with central banks	-	-	-	-	-	110 368	110 368
Balances with local banks	115 619	-	-	-	-	-	115 619
Notes and coins	-	-	-	-	-	146 220	146 220
Advances	771 418	-	-	-	-	5 800	777 218
Investments securities and other investments	13 130	26 573	71 269	63 958	-	-	174 931
Accounts receivable	-	-	-	-	-	4 672	4 672
Amounts due by holding company and fellow subsidiary companies	181 602	28 000	160 000	-	-	-	369 602
Property and equipment	-	-	-	-	-	49 747	49 747
Deferred income tax asset	-	-	-	-	-	13 462	13 462
Total assets	1081 769	54 573	231 269	63 958	-	330 270	1 761 840
Liabilities							
Deposits	1062 578	117 304	260 832	6 850	-	14 251	1 461 815
Creditors and accruals	-	-	-	-	-	45 873	45 873
Current tax liability	-	-	-	-	-	12 536	12 536
Long term liabilities	-	-	-	-	-	2 757	2 757
Amounts due to holding company and fellow subsidiary companies	36 103	19 965	-	-	20 000	-	76 069
Total liabilities	1098 681	137 269	260 832	6 850	20 000	75 417	1 599 050
Total interest sensitivity gap	(16 913)	(82 695)	(29 563)	57 108	(20 000)	254 852	162 790

2. FINANCIAL RISK MANAGEMENT (continued)

2.3 Interest rate risk (continued)

31 December 2015							
M' 000	Call	1 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	155 821	-	-	-	-	174 396	330 217
Cash and balances with central banks	-	-	-	-	-	42 994	42 994
Balances with local banks	155 821	-	-	-	-	-	155 821
Notes and coins	-	-	-	-	-	131 402	131 402
Advances	642 110	-	-	-	-	3 689	645 799
Investments securities and other investments	27 139	30 058	64 201	49 163	-	-	170 561
Accounts receivable	-	-	-	-	-	13 520	13 520
Amounts due by holding company and fellow subsidiary companies	137 459	75 000	30 000	34 000	-	-	276 459
Property and equipment	-	-	-	-	-	46 840	46 840
Deferred income tax asset	-	-	-	-	-	7 162	7 162
Total assets	962 529	105 058	94 201	83 163	-	245 607	1 490 558
Liabilities							
Deposits	1005 887	126 244	73 667	48 785	-	5 694	1260 277
Creditors and accruals	-	-	-	-	-	52 903	52 903
Current tax liability	-	-	-	-	-	5 234	5 234
Long term liabilities	-	-	-	-	-	3 067	3 067
Amounts due to holding company and fellow subsidiary companies	15 776	-	-	-	19 972	-	35 748
Total liabilities	1021 663	126 244	73 667	48 785	19 972	66 897	1 357 229
Total interest sensitivity gap	(59 134)	(21 186)	20 534	34 378	(19 972)	178 710	133 330

2. FINANCIAL RISK MANAGEMENT (continued)

2.3 Interest rate risk (continued)

Repricing gap

The natural position of the Bank is asset sensitive, since interest earning assets tend to reprice faster than interest paying liabilities in response to interest rate changes. This results in a natural exposure of net interest income ("NII") to declining interest rates, which represents the largest component of interest rate risk.

Assumptions relating to loan repayments and behaviour of core deposits

Modelling assumptions are made that affect both the determination of interest rate risk incurred in the banking book and the hedging activity that takes place in mitigation of the exposures. These include:

- all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics;
- instruments which have no explicit contractual repricing or maturity dates are placed in gap intervals according to management's judgement and analysis, based on the most likely repricing behaviour;
- interest rate risk modelling extends over a five year time horizon, of which the first 12 month period is disclosed. Similarly, several interest rate shocks and scenarios are modelled, with disclosure of the sensitivity to a 200 basis point parallel shift in the yield curve (and assuming no new management action to mitigate the impact).

Assumptions are made with respect to the repricing characteristics of instruments that have no explicit contractual repricing or maturity dates:

- non maturity deposits and transmission account balances ("NMDs") do not have specific maturities as individual depositors can freely withdraw or place funds.
- prime linked products are assumed to reprice immediately whenever the Repo rate changes.
- NMDs are assumed to reprice overnight since the administered rate can change at any time at the Bank's discretion

The table below indicates the repricing gaps at 31 December 2016 based on the above assumptions.

31 December 2016					
M' 000	**<3 months**	**3 - 6 months**	**6 - 12 months**	**> 12 months**	**Non-rate sensitive**
Net repricing gap	**(100 709)**	**(4 940)**	**(26 283)**	**41 150**	**90 782**
Cumulative repricing gap	**(100 709)**	**(105 649)**	**(131 932)**	**(90 782)**	**-**

31 December 2015					
M' 000	<3 months	3 - 6 months	6 - 12 months	> 12 months	Non-rate sensitive
Net repricing gap	(40 916)	18 188	3 711	(16 785)	5 802
Cumulative repricing gap	(40 916)	18 188	3 711	(16 785)	5 802

Sensitivity analysis

NII sensitivity decreased in Loti terms compared to the previous period. The sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures at year end and throughout the year. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 200 basis points in all interest rates would result in a reduction in projected 12 month NII of M6.3 million. A similar increase would result in an increase of M6.1 million in projected 12 month net interest income.

Sensitivity of FNB Lesotho projected NII

M' 000	**31 December 2016**	31 December 2015
Change in projected 12 month NII		
Downward 200 bps	**(6 265)**	(6 645)
Upward 200 bps	**6 084**	5 751

2. FINANCIAL RISK MANAGEMENT (continued)

2.4 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current amounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Management sets limits on the minimum portion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

	31 December 2016						
M' 000	Call*	1 - 3 Months*	4 - 12 Months	1 - 5 Years	Over 5 Years	Non-contractual	Total
Assets							
Cash and cash equivalents	372 207	-	-	-	-	-	372 207
Cash and balances with central banks	110 368	-	-	-	-	-	110 368
Balances with local banks	115 619	-	-	-	-	-	115 619
Notes and coins	146 220	-	-	-	-	-	146 220
Advances	97 938	49 337	127 087	406 460	94 504	1 892	777 218
Investments securities and other investments	12 422	25 140	67 731	69 640	-	-	174 931
Accounts receivable	4 672	-	-	-	-	-	4 672
Amounts due by holding company and fellow subsidiary companies	174 914	45 657	149 030	-	-	-	369 602
Property and equipment	-	-	-	-	-	49 747	49 747
Deferred income tax asset	-	-	-	-	-	13 462	13 462
Total assets	662 153	120 134	343 848	476 100	94 504	65 101	1 761 840
Liabilities							
Deposits	933 961	250 581	270 178	7 096	-	-	1 461 815
Creditors and accruals	23 468	15 805	3 843	2 757	-	-	45 873
Long term liabilities	-	-	-	2 757	-	-	2 757
Amounts due to holding company and fellow subsidiary companies	36 103	-	-	20 000	19 965	-	76 069
Current tax liability	-	11 342	1 194	-	-	-	12 536
Total liabilities	993 532	277 728	275 215	32 610	19 965	-	1 599 050
Total liquidity gap	(331 379)	(157 594)	68 633	443 490	74 538	65 101	162 789

* Bucketing for call and 1-3 months has changed in the current year. Call includes everything less than 1 month whereas prior year, some items less than 1 month were included in 1-3 months.

2. FINANCIAL RISK MANAGEMENT (continued)

2.4 Liquidity risk (continued)

31 December 2015							
M' 000	Call	1 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Non-contractual	Total
Assets							
Cash and cash equivalents	330 217	-	-	-	-	-	330 217
Cash and balances with central banks	42 994	-	-	-	-	-	42 994
Balances with local banks	155 821	-	-	-	-	-	155 821
Notes and coins	131 402	-	-	-	-	-	131 402
Advances	91 442	25 214	105 565	341 432	81 217	928	645 799
Investments securities and other investments	27 139	30 058	64 201	49 163	-	-	170 561
Accounts receivable	13 520	-	-	-	-	-	13 520
Amounts due by holding company and fellow subsidiary companies	129 100	81 592	30 873	34 894	-	-	276 459
Property and equipment	-	-	-	-	-	46 840	46 840
Deferred income tax asset	-	-	-	-	-	7 162	7 162
Total assets	591 418	136 864	200 639	425 489	81 217	54 930	1 490 558
Liabilities							
Deposits	860 148	275 399	75 038	49 692	-	-	1260 277
Creditors and accruals	48 706	-	1 814	-	2 382	-	52 903
Long term liabilities	-	-	-	3 067	-	-	3 067
Amounts due to holding company and fellow subsidiary companies	15 776	-	-	-	19 972	-	35 748
Current tax liability	-	-	-	-	-	5 234	5 234
Total liabilities	924 630	275 399	76 852	52 759	22 354	5 234	1 357 228
Total liquidity gap	(333 212)	(138 535)	123 787	372 730	58 864	49 696	133 330

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also potentially increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

2. FINANCIAL RISK MANAGEMENT (continued)

2.5 Liquidity cash flows (undiscounted cash flows)

The table below presents the undiscounted cash flows of liabilities and includes all cash outflows related to the principal amounts as well as future payments. These balances will not agree with the balance sheet for the following reasons:
- the balances are contractual, undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- the table includes contractual cash flows with respect to items not recognised in the balance sheet;
- all instruments held for trading purposes are included in the "call to 3 month" bucket and not by contractual maturity because trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

	31 December 2016					
M' 000	**Call**	**1 - 3 Months**	**4 - 12 Months**	**1 - 5 Years**	**Over 5 Years**	**Total**
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment						
Liabilities						
Deposits	**913 909**	**269 014**	**278 317**	**6 828**	**-**	**1 468 067**
Creditors and accruals	**24 366**	**18 996**	**1 607**	**-**	**-**	**44 969**
Amounts due by holding company and fellow subsidiary companies	**76 069**	**-**	**-**	**-**	**-**	**76 069**
Long term liabilities	**-**	**-**	**-**	**-**	**3 042**	**3 042**
Financial and other guarantees	**60 003**	**-**	**-**	**-**	**-**	**60 003**
Facilities not drawn	**59 447**	**-**	**-**	**-**	**-**	**59 447**
Capital expenditure contracted for - External counterparties	**-**	**-**	**-**	**-**	**-**	**-**
Operating lease commitments	**-**	**2 349**	**5 907**	**20 732**	**-**	**28 988**
Total liabilities	**1 133 793**	**290 359**	**285 831**	**27 560**	**3 042**	**1 740 585**

	31 December 2015					
M' 000	Call	1 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment						
Liabilities						
Deposits	1003 434	180 169	74 544	4 013	3	1262 163
Creditors and accruals	30 344	16 731	5 828	3 067	-	55 970
Amounts due by holding company and fellow subsidiary companies	-	-	-	-	20 000	20 000
Long term liabilities	-	-	-	-	-	-
Financial and other guarantees	21 656	-	-	-	-	21 656
Facilities not drawn	76 931	-	-	-	-	76 931
Capital expenditure contracted for - External counterparties	-	-	-	-	-	-
Operating lease commitments	-	2 118	6 661	24 242	-	33 021
Total liabilities	1132 365	199 018	87 033	31 322	20 003	1 469 741

2.6 Fair values of financial assets and liabilities (Note 21)

All financial assets are disclosed at values approximating their fair values. The following bases are used in determining fair value:

a) Balances due to and from banks
- The amounts include inter-bank placements and items in course of collection.
- The fair value of floating rate placements and overnight deposits is their carrying amount.
- Fixed deposits are shown at current value including accrued interest.

b) Advances

Advances are shown net of provisions for impairment. The estimated fair value of advances represents the discounted amount of estimated future cash flows expected to be received. Where significant concentrations of non-market related loans exist, appropriate impairment has been effected.

2. FINANCIAL RISK MANAGEMENT (continued)

2.6 Fair values of financial assets and liabilities (continued)

c) Investment securities

Instruments such as treasury bills are based on the contracted value, including accrued discount, which is considered to approximate the current market value.

d) Deposits with customers

The estimated fair value of deposits is the amount repayable on demand, where there is no stated maturity. The cash flows from fixed term deposits are considered to be appropriately market related to render the current balance a fair value.

2.7 Capital Management

The Bank's objective when managing capital is to comply with capital requirements set by the regulators, to safeguard the Bank's ability to continue as a going concern and maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management through the Assets and Liabilities Committee.

The Bank's regulatory capital is divided into two tiers:

- Tier I capital: fully paid up ordinary share capital, audited retained earnings and reserves created by appropriations of retained earnings as required by the Financial Institutions Act 2012; and

- Tier II capital: general provisions for losses on advances to customers, excluding provisions for specific loans. The general provision in Tier II capital is limited to 1.25% of risk-weighted assets.

The risk-weighted assets are measured by means of three factors; an estimate of credit, operational and other risk associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

The following table shows the composition of regulatory capital and ratios of the Bank at 31 December 2016. The Bank complied with all the capital requirements which are imposed by the Financial Institutions Act 2012.

M' 000	**31 December 2016**	31 December 2015
Share capital and premium	**48 233**	48 233
Retained Earnings	**106 413**	78 506
Total Qualifying Tier 1 Capital	**154 646**	126 739
General debt provision	**13 260**	8 934
Perpetual debt instrument	**20 000**	20 000
Total Qualifying Tier 2 Capital	**33 260**	28 934
Total regulatory capital	**187 906**	155 673
Risk-weighted assets	**1,033,201**	870 381
Capital Adequacy ratio	**18.2%**	17.9%
Minimum capital ratio per Financial Institutions Act 2012	**8%**	8%

3. ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

3.1 Interest and similar income

31 December 2016			
M' 000	**Amortised cost**	**Fair value**	**Total**
Interest on:			
- Advances	**112 355**	**-**	**112 355**
- Investments securities and other investments	**-**	**18 649**	**18 649**
- Amounts due by holding company and fellow subsidiary companies	**23 724**	**-**	**23 724**
- Other	**142**	**-**	**142**
Interest and similar income	**136 221**	**18 649**	**154 870**

31 December 2015			
M' 000	Amortised cost	Fair value	Total
Interest on:			
- Advances	73 267	-	73 267
- Investments securities and other investments	18 788	-	18 788
- Amounts due by holding company and fellow subsidiary companies	23 770	-	23 770
- Other	67	-	67
Interest and similar income	115 892	18 788	115 892

3.2 Interest expense and similar charges

31 December 2016		
M' 000	**Amortised cost**	**Total**
Interest on:		
- Current accounts	**(15 938)**	**(15 938)**
- Savings deposits	**(109)**	**(109)**
- Term deposit accounts	**(21 930)**	**(21 930)**
- Amounts due to holding company and fellow subsidiary companies	**(2 422)**	**(2 422)**
Interest expense and similar charges	**(40 400)**	**(40 400)**

31 December 2015		
M' 000	Amortised cost	Total
Interest on:		
- Current accounts	(24 984)	(24 984)
- Savings deposits	(96)	(96)
- Term deposit accounts	(9 341)	(9 341)
- Amounts due to holding company and fellow subsidiary companies	(2 201)	(2 201)
Interest expense and similar charges	(36 622)	(36 622)

4. IMPAIRMENT OF ADVANCES

Significant advances are monitored by the Credit Committee and impaired according to the Bank's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- Decrease in the estimated amount of collateral held against the loans and advances
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

Where objective evidence of impairment exists impairment testing is performed based on the loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD").

31 December 2016			
M' 000	**Total impairment**	**Specific impairment**	**Portfolio impairment**
Analysis of movement in impairment of advances per class of advance			
Opening balance	**11 765**	**9 421**	**2 344**
New impairments created	**20 969**	**10 096**	**10 874**
Closing balance	**32 734**	**19 517**	**13 217**
Impairment created			
New and increased provision	**35 163**	**24 289**	**10,874**
Bad debts written off	**(9 917)**	**(9 917)**	**-**
Impairment loss recognised in profit or loss	**25 245**	**14 372**	**10,874**

31 December 2015			
M' 000	Total impairment	Specific impairment	Portfolio impairment
Analysis of movement in impairment of advances per class of advance			
Opening balance	13 890	11 545	2,345
New impairments created	(2 125)	(2 124)	(1)
Closing balance	11 765	9 421	2 344
Impairment created			
New and increased provision	20 015	20 017	(2)
Bad debts written off	(11 070)	(11 070)	-
Impairment loss recognised in profit or loss	8 945	8 947	(2)

M' 000	**2016**	**2015**
Analysis of impairments as a percentage of Gross Advances		
Gross advances	**809 952**	657 563
	809 952	657 563
Amount		
Impairment of advances	**32 734**	**11 765**
General risk reserve*	**8 144**	**6 590**
Closing balance	**40 878**	**18 355**
% of Gross advances		
Impairment of advances	**4.04%**	**2.00%**
General risk reserve*	**1.01%**	**1.00%**
Total percentage	**5.05%**	**3.00%**

* This reserve is kept as part of the reserve as required by the Financial Institutions Act 2012 and used as part of the general debt provision.

4. IMPAIRMENT OF ADVANCES (continued)

	31 December 2016			
M' 000	**Total value including interest in suspense**	**Present value of security held and other recoverable amounts**	**Specific impairments**	**Contractual interest suspended**
Non performing loans by sector				
Agriculture	**625**	**414**	**123**	**88**
Financial services	**404**	**287**	**64**	**53**
Building and Property Development	**4 258**	**2 900**	**767**	**592**
Individuals	**21 685**	**4 297**	**15 664**	**1 725**
Manufacturing and Commerce	**2 195**	**1 556**	**349**	**290**
Transport and Communication	**8 263**	**5 761**	**1 404**	**1 098**
Other Services	**4 181**	**2 478**	**1 145**	**558**
Total non performing loans	**41 612**	**17 692**	**19 517**	**4 404**
Non performing loans by category				
Overdrafts and managed accounts	**5 694**	**3 164**	**1 451**	**1 078**
Instalment sales	**2 918**	**458**	**2 133**	**327**
Personal loans	**27 495**	**10 089**	**15 037**	**2 369**
Home loans	**5 505**	**3 980**	**896**	**629**
Total non performing loans	**41 612**	**17 692**	**19 517**	**4 404**
Non performing loans by geographical area				
Lesotho	**41 612**	**17 692**	**19 517**	**4 404**
Total non performing loans	**41 612**	**17 692**	**19 517**	**4 404**

	31 December 2015			
M' 000	Total value including interest in suspense	Present value of security held and other recoverable amounts	Specific impairments	Contractual interest suspended
Non performing loans by sector				
Agriculture	232	90	78	64
Financial services	252	124	113	15
Building and Property Development	2 627	1 941	379	307
Individuals	10 415	1 658	7 991	766
Manufacturing and commerce	724	201	414	108
Mining	-	-	-	-
Transport and communication	2 283	1 948	224	111
Other	469	177	221	71
Total non performing loans	17 002	6 139	9 420	1 442
Non performing loans by category				
Overdrafts and managed accounts	1 589	383	1 003	203
Instalment sales	3 206	1 256	1 616	333
Personal loans	10 379	3 204	6 480	694
Home loans	1 828	1 296	321	212
Total non performing loans	17 002	6 139	9 420	1 442
Non performing loans by geographical area				
Lesotho	17 001	6 139	9 420	1 442
Total non performing loans	17 001	6 139	9 420	1 442

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016

5. NON INTEREST REVENUE

M' 000	**31 December 2016**	31 December 2015
Fee and commission income		
- Instruments at amortised cost	**166 954**	136 748
- Non financial assets and liabilities	**(10 011)**	(9 011)
- Other	**1 953**	1 514
Net Fee and commission income	**158 896**	129 251
Other non interest revenue	**11 836**	13 386
Total non interest income	**170 732**	142 637
Fee and commission income:		
- Card commissions	**569**	907
- Cash deposit fees	**72 087**	56 262
- Commissions: bills, drafts and cheques	**1 937**	1 175
- Service fees	**86 804**	73 033
- Commissions: sale of foreign currency	**1 953**	1 514
- Other non-banking fee and commission income	**(4 453)**	(3 640)
Net Fee and commission income	**158 897**	129 251
Other non interest revenue		
- Income from cross border transactions	**11 836**	13 386
Other non interest revenue	**11 836**	13 386
Total non interest revenue	**170 733**	142 637

6. OPERATING EXPENSES

M' 000	31 December 2016	31 December 2015
Auditors' remuneration		
- Audit Fees	**(817)**	(1 499)
Auditors' remuneration	**(817)**	(1 499)
Depreciation of property and equipment	**(14 001)**	(9 331)
Operating lease charges		
- Property	**(14 094)**	(12 360)
Operating lease charges	**(14 094)**	(12 360)
Professional fees		
- Technical	**(913)**	(656)
Professional fees	**(913)**	(656)
Direct staff costs		
- Salaries, wages and allowances	**(50 153)**	(37 299)
- Contributions to employee contribution funds	**(6 772)**	(5 758)
- Training expenses	**(1 492)**	(1 699)
- Provision for bonuses and leave pay	**(6 233)**	(6 939)
	(64 649)	(51 695)
- Other	**(8 614)**	(6 520)
Total staff cost	**(73 264)**	(58 215)
Other operating costs		
- Insurance	**(1 295)**	(1,348)
- Maintenance	**(4 699)**	(3 781)
- Property	**(9 503)**	(7 888)
- Stationery	**(4 336)**	(2 180)
- Telecommunications	**(4 710)**	(5 364)
- Other operating expenditure	**(25 925)**	(31 144)
- Expenses paid to holding company and fellow subsidiary companies (Note 6.1)	**(67 051)**	(55 761)
Other operating costs	**(117 520)**	(107 466)
Total operating expenses	**(220 608)**	(189 528)
6.1 Expenses paid to holding company and fellow subsidiary companies		
Below is a breakdown of the expenses according to their nature:		
- Product and system development	**(2 040)**	(6 151)
- System utilisation and maintenance	**(13 771)**	(12 377)
- Management fee	**(27 847)**	(19 744)
- Other	**(23 393)**	(17 489)
Expenses paid to holding company and fellow subsidiary companies	**(67 051)**	(55 761)
6.2 Conveyence of cash		
Cash sorting, handling and transporting charges	**(11 496)**	(8 528)

7. CASH AND CASH EQUIVALENTS

M' 000	**31 December 2016**	31 December 2015
Coins and bank notes	**146 220**	131 402
Balances with central bank	**110 368**	42 994
Balances with other banks	**115 619**	155 821
Cash and cash equivalents	**372 207**	330 217

The carrying value of cash and cash equivalents approximates the fair value.

Mandatory reserve balances included above :	**46 716**	37 808

Banks are required to deposit a minimum average balance, calculated weekly, with the Central Bank of Lesotho, which is not available for use in the Bank's day to day operations. These deposits bear no interest.

8. INVESTMENT SECURITIES AND OTHER INVESTMENTS

31 December 2016		
M' 000	**Available-for-sale**	**Total**
Total		
Treasury bills	**105 291**	**105 291**
Government bonds	**69 640**	**69 640**
Total	**174 931**	**174 931**

31 December 2015		
M' 000	Available-for-sale	Total
Total		
Treasury bills	121 398	121 398
Government bonds	49 163	49 163
Total	170 561	170 561

9. INCOME TAX EXPENSE

M' 000	31 December 2016	31 December 2015
Income tax expense		
Normal tax		
- Current	**(16 190)**	(6 185)
- Current year	**(16 079)**	(8 483)
- Prior year adjustment	**(111)**	2 298
- Deferred income tax	**6 301**	827
- Current year	**6 309**	651
	(8)	175
Total income tax expense	**(9 889)**	(5 359)
Tax rate reconciliation - Lesotho income tax expense	%	%
Effective rate of tax	**41.1**	26.5
Total tax has been affected by:		
- Expenses not deductable for tax purposes	**(16.1)**	(1.5)
Standard rate of income tax	**25.0**	**25.0**

10. ADVANCES

31 December 2016	
M' 000	Loans and receivables
Sector analysis	
Agriculture	**7 620**
Financial services	**29 286**
Building and property development	**91 369**
Individuals	**414 074**
Manufacturing and commerce	**142 735**
Mining	**8 703**
Transport and communication	**37 348**
Other services	**83 221**
Notional value of advances	**814 355**
Contractual interest suspended	**(4 404)**
Gross advances	**809 952**
Impairment of advances (note 4)	**(32 734)**
Net advances	**777 218**
Geographic analysis (based on credit risk)	
Lesotho	**814 355**
Total value of advances	**814 355**
Contractual interest suspended	**(4 404)**
Gross advances	**809 952**
Impairment of advances (note 4)	**(32 734)**
Net advances	**777 218**
Category analysis	
Overdrafts and managed accounts	**106 268**
Instalment sales	**207 723**
Home loans	**78 184**
Commercial property finance	**64 629**
Personal loans	**357 552**
Notional value of advances	**814 355**
Contractual interest suspended	**(4 404)**
Gross advances	**809 952**
Impairment of advances (note 4)	**(32 734)**
Net advances	**777 218**

10. ADVANCES (continued)

31 December 2015

M' 000	Loans and receivables
Sector analysis	
Agriculture	7 796
Financial services	28 080
Building and property development	76 266
Individuals	330 526
Manufacturing and commerce	116 153
Mining	20 619
Transport and communication	28 898
Other services	50 668
Notional value of advances	659 006
Contractual interest suspended	(1 443)
Gross advances	657 563
Impairment of advances (note 4)	(11 764)
Net Advances	645 799
Geographic analysis (based on credit risk)	
Lesotho	659 006
Total value of advances	659 006
Contractual interest suspended	(1 443)
Gross advances	657 563
Impairment of advances (note 4)	(11 764)
Net advances	645 799
Category analysis	
Overdrafts and managed accounts	78 173
Instalment sales	197 865
Home loans	68 247
Commercial property finance	41 391
Personal loans	273 330
Notional value of advances	659 006
Contractual interest suspended	(1 443)
Gross advances	657 563
Impairment of advances (note 4)	(11 764)
Net advances	645 799

10. ADVANCES (continued)

	31 December 2016			
M' 000	**Within 1 Year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Analysis of instalment sales				
Suspensive sale instalments receivable	**23 067**	**184 122**	**2 868**	**210 057**
Less: Unearned finance charges	**(39)**	**(2 253)**	**(42)**	**(2 334)**
Total	**23 028**	**181 869**	**2 826**	**207 723**

	31 December 2015			
M' 000	Within 1 Year	Between 1 and 5 years	More than 5 years	Total
Analysis of instalment sales				
Suspensive sale instalments receivable	12 983	218 845	3 286	235 114
Less: Unearned finance charges	(629)	(35 950)	(671)	(37 250)
Total	12 354	182 895	2 615	197 864

Collateral is an important mitigant of credit risk. Refer to note 2.1 for the Bank's credit risk management strategy with detailed information on credit risk mitigation.

The financial effect of collateral

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default (LGD) per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately. The amounts disclosed above represent the difference between the balance sheet impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

Where there is no collateral or where collateral is disregarded for provisioning purposes, no financial effect was calculated.

The table below sets out the financial effect of collateral per class of advances:

M' 000	**31 December 2016**	31 December 2015
Home loans	**1 308**	418
Instalment sales	**962**	306
Total	**2 270**	724

It is the Bank's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which therefore yields a more accurate financial effect.

11. ACCOUNTS RECEIVABLE

M' 000	**31 December 2016**	31 December 2015
Items in transit	**3 374**	6 085
Accounts receivable	**(2 797)**	4 060
Prepayments	**4 095**	3 375
Accounts receivable	**4 672**	13 520

The credit quality of the financial instruments included in accounts receivable is provided in the table below:

31 December 2016						
		Past due but not impaired				
M' 000	**Neither past due nor impaired**	**1 - 30 days**	**31 - 60 days**	**> 60 days**	**Impaired**	**Total**
Items in transit	**3 374**	**-**	**-**	**-**	**-**	**3 374**
Accounts receivable	**(2 797)**	**-**	**-**	**-**	**-**	**(2 797)**
Prepayments	**4 095**	**-**	**-**	**-**	**-**	**4 095**
Total financial accounts receivable	**4 672**	**-**	**-**	**-**	**-**	**4 672**

31 December 2015						
		Past due but not impaired				
M' 000	Neither past due nor impaired	1 - 30 days	31 - 60 days	> 60 days	Impaired	Total
Items in transit	6 085	-	-	-	-	6 085
Accounts receivable	4 060	-	-	-	-	4 060
Prepayments	3 375	-	-	-	-	3 375
Total financial accounts receivable	13 520	-	-	-	-	13 520

The carrying value of accounts receivable approximates the fair value.

12. AMOUNTS DUE BY / (TO) HOLDING COMPANY AND FELLOW SUBSIDIARY COMPANIES

M' 000	**31 December 2016**	31 December 2015
Amounts due to holding company and fellow subsidiary companies	**56 103**	15 776
Loans due to holding company and fellow subsidiary companies	**19 965**	19 972
Amounts due to holding company and fellow subsidiary companies	**76 069**	35 748
Inter-company debtors	**32 042**	31 587
Nostro balances	**869**	525
Fixed deposit balances	**194 687**	147 348
Money market balances	**142 003**	96 999
Amounts due by holding company and fellow subsidiary companies	**369 602**	276 459
Amounts due by holding company and fellow subsidiary companies	**293 533**	240 711

Money market balances with related banks are at variable interest rates and form part of cash and cash equivalents (Note 18).

Loans due to holding company and fellow subsidiary companies have no fixed terms of repayment and carry varying rates of interest. Loans to holding company and fellow subsidiary companies amounting to M20 million (2015: M20 million) are subject to subordination agreements.

Intercompany accounts do not attract interest charges.

The carrying value of these amounts is a reasonable approximation of their fair value.

13. PROPERTY AND EQUIPMENT

	31 December 2016			31 December 2015			31 December 2014		
M' 000	**Cost**	**Accumulated depreciation and impairments**	**Carrying amount**	Cost	Accumulated depreciation and impairments	Carrying amount	Cost	Accumulated depreciation and impairments	Carrying amount
Property	**49 832**	**(31 162)**	**18 670**	48 091	(27 446)	20 645	34 853	(23 193)	11 660
Leasehold premises	**49 832**	**(31 162)**	**18 670**	48 091	(27 446)	20 645	34 853	(23 193)	11 660
Equipment	**60 149**	**(29 071)**	**31 077**	53 849	(27 653)	26 196	43 809	(22 706)	21 103
Computer equipment	**27 722**	**(9 474)**	**18 248**	26 454	(12 936)	13 518	21 599	(10 878)	10 721
Furniture and fittings	**17 490**	**(10 643)**	**6 846**	15 856	(6 887)	8 969	13 632	(5 598)	8 034
Motor vehicles	**1 754**	**(1 236)**	**518**	1 561	(1,205)	356	1 403	(1,172)	231
Office equipment	**11 004**	**(6 419)**	**4 585**	7 799	(5 529)	2 270	4 996	(4 165)	831
Capitalised Leased assets	**2 179**	**(1 299)**	**880**	2 179	(1 096)	1 083	2 179	(893)	1 286
Total	**109 980**	**(60 233)**	**49 747**	101 940	(55 099)	46 840	78 662	(45 899)	32 763

M' 000	**Leasehold premises**	**Computer equipment**	**Furniture and fittings**	**Motor vehicles**	**Office equipment**	**Capitalised Leased assets**	**Total**
Carrying amount at 31 December 2014	11 660	10 721	8 034	231	831	1 286	32 763
Acquisitions	13 238	4 875	2 224	272	2 803	-	23 411
Depreciation charge for period	(4 050)	(2 278)	(1 289)	(147)	(1 364)	(203)	(9 331)
Disposals	-	(3)	-	-	-	-	(3)
Carrying amount at 31 December 2015	**20 848**	**13 315**	**8 968**	**356**	**2 270**	**1 083**	**46 840**
Acquisitions	3 413	7 946	1 330	410	4 015		17 114
Depreciation charge for period	(5 591)	(2 867)	(3 452)	(247)	(1 639)	(203)	(14 001)
Disposals	**-**	**(146)**	**-**	**-**	**(60)**		**(206)**
Carrying amount at 31 December 2016	**18 670**	**18 248**	**6 846**	**518**	**4 585**	**880**	**49 747**

14. DEFERRED INCOME TAX

M' 000	**31 December 2016**	31 December 2015
Deferred income tax		
The movement on the deferred income tax account is as follows:		
Deferred income tax asset		
Opening balance	**7 162**	6 333
- Charge/(Release) to profit or loss	**6 301**	829
Total debit balance	**13 462**	7 162

Deferred income tax assets and liabilities and deferred tax charged/(released) to profit or loss are attributable to the following items:

31 December 2016			
M' 000	**Opening balance**	**Tax charge/(release)**	**Closing balance**
Deferred income tax asset/(liabilities)			
Provision for loan impairment	**2 941**	**5 242**	**8 183**
Other provisions	**3 302**	**523**	**3 825**
Accruals	**0**	**-**	**-**
Property and equipment	**919**	**535**	**1 454**
Other	**(0)**	**-**	**-**
Total deferred income tax asset/(liabilities)	**7 162**	**6 300**	**13 462**

31 December 2015			
M' 000	**Opening balance**	**Tax charge/(release)**	**Closing balance**
Deferred income tax asset/(liabilities)			
Provision for loan impairment	3 417	(476)	2 941
Other provisions	1 039	2 263	3 302
Accruals	156	(155)	0
Property and equipment	2 869	(1,950)	919
Other	(1 148)	1,148	(0)
Total deferred income tax asset/(liabilities)	6 333	829	7 162

15. CREDITORS AND ACCRUALS

M' 000	2016	2015
Creditors and accruals		
Accounts payable and accrued liabilities	**40 157**	46 266
Operating lease liability arising from straight lining of lease payments	**1 607**	1 188
Creditors and accruals	**41 764**	47 454
Audit fees		
Opening balance	**1 435**	833
- Charge to the income statement	**817**	1 499
- Additional accruals created	**817**	1 499
- Utilised	**(1 746)**	(897)
Closing balance	**506**	1 435
Staff related accruals*		
Opening balance	**4 014**	3 290
- Charge to the income statement	**6 233**	6 939
- Additional accruals created	**6 233**	6 939
- Utilised	**(6 644)**	(6 215)
Closing balance	**3 603**	4 014
Total creditors and accruals	**45 873**	52 903

** Staff related accruals include provisions for litigation and claims.*

The carrying value of these amounts is a reasonable approximation of their fair value.

16. DEPOSITS

31 December 2016		
M' 000	**At amortised cost**	**Total**
From banks and financial institutions	**110 008**	**110 008**
- In the normal course of business	**110 008**	**110 008**
		-
From customers	**1 351 762**	**1 351 762**
- Current and call accounts	**777 871**	**777 871**
- Savings accounts	**7 398**	**7 398**
- Term deposits	**566 493**	**566 493**
		-
Other deposits	**46**	**46**
Deposits	**1 461 815**	**1 461 815**

31 December 2015		
M' 000	**At amortised cost**	**Total**
From banks and financial institutions	200 956	200 956
- In the normal course of business	200 956	200 956
From customers	1 059 269	1 059 269
- Current and call accounts	581 429	581 429
- Savings accounts	19 257	19 257
- Term deposits	458 584	458 584
Other deposits	52	52
Deposits	1 260 277	1 260 277

17. LONG TERM LIABILITIES

M' 000	**31 December 2016**	31 December 2015
Share based payment	**2 757**	3 067
Long term liabilities	**2 757**	3 067

18. CASH FLOW INFORMATION

M' 000	31 December 2016	31 December 2015
18.1 Reconciliation of operating profit before income tax to cash generated from operating activities		
Operating profit before income tax	**39 349**	23 434
Adjusted for:		
- Depreciation, amortisation and impairment costs	**14 001**	9 331
- Loss on disposal of property and equipment	**147**	(20)
- Impairment of advances	**25 245**	8 945
- Share based payments expense	**2 460**	1 833
- Staff related accruals	**(411)**	723
- Audit fee accrual charged to income statement	**(929)**	602
- Straight lining of lease payments	**419**	570
Cash generated from operating activities	**80 282**	45 418
18.2 Cash receipts from customers		
Interest income	**154 870**	115 892
Fee and commission income	**170 732**	142 637
Cash receipts from customers	**325 602**	258 529
18.3 Cash paid to customers, suppliers and employees		
Interest expense	**(40 400)**	(36 622)
Other operating expenses	**(204 920)**	(176 488)
Cash paid to customers, suppliers and employees	**(245 320)**	(213 110)
18.4 (Increase)/Decrease in income earning assets		
Advances	**(156 664)**	(133 339)
Investments securities and other investments	**(4 371)**	(56 639)
Related party banks	**(7 818)**	(90 871)
(Increase)/Decrease in income earning assets	**(168 853)**	(280 849)
18.5 (Decrease)/Increase in deposits and other liabilities		
Term deposits	**107 909**	245 945
Current deposit accounts	**187 534**	(193 231)
Deposits from banks	**(90 948)**	124 136
Savings accounts	**(11 858)**	(7)
Creditors, net of debtors	**2 739**	39 145
Other	**(6)**	13
(Decrease)/Increase in deposits and other liabilities	**195 370**	216 001

18. CASH FLOW INFORMATION (continued)

M' 000	31 December 2016	31 December 2015
18.6 Tax paid		
Tax payable at beginning of the year	**5 234**	9 330
Charge to profit or loss	**16 190**	6 185
Tax payable at end of the year	**(12 536)**	(5 234)
Tax paid	**8 888**	10 282

18.7 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

M' 000	31 December 2016	31 December 2015
Cash and cash equivalents (Note 18.8)	**325 491**	292 409
Money market investments (Note 12)	**142 003**	96 999
Cash and cash equivalents	**467 494**	389 408
18.8 Cash and short term funds for purposes of the statement of cash flows		
Cash and cash equivalents (Note 7)	**372 207**	330 217
Less: Mandatory reserve balances (Note 7)	**(46 716)**	(37 808)
Reported in the statement of cash flows	**325 491**	292 409

19. CONTINGENCIES AND COMMITMENTS

M' 000	31 December 2016	31 December 2015
Contingencies and commitments		
Guarantees*	**60 003**	21 656
Total contingencies	**60 003**	21 656
Irrevocable commitments	**59 447**	76 931
Committed capital expenditure	**65 796**	47 768
Operating lease commitments	**28 988**	33 021
Contingencies and commitments	**214 234**	179 376

** Guarantees consist predominantly of endorsements and performance guarantees*

Other Contingencies

The Bank has contingent liabilities in respect of certain outstanding claims received in the normal course of business.

Legal proceedings

There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a total basis. Provision is made for all liabilities that are expected to materialise.

Commitments

Commitments in respect of capital expenditure and long term investments approved by directors:		
- Total capital commitments not yet contracted for at reporting date but have been approved by the directors	**65 796**	47 768
Total commitments	**65 796**	47 768

Funds to meet these commitments will be provided from Bank resources.

Bank commitments under operating leases where the Bank is the lessee

The Bank's significant operating leases relate to property rentals of the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are fixed monthly payments and the leases are generally for a period of between 2 and 5 years.

Escalation clauses are based on market related rates and vary between 8 and 12 percent.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	31 December 2016			
M' 000	**Within 1 year**	**Between 1 to 5 years**	**More than 5 years**	**Total**
Office premises	**8 257**	**20 732**	**-**	**28 988**
Total operating lease commitments	**8 257**	**20 732**	**-**	**28 988**

	31 December 2015			
M'000	Within 1 year	Between 1 to 5 years	More than 5 years	Total
Office premises	8 779	24 242	-	33 021
Total operating lease commitments	8 779	24 242	-	33 021

20. CURRENT / NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

31 December 2016

M' 000	Carrying amount	Current	Non current
ASSETS			
Cash and cash equivalents	**372 207**	**372 207**	**-**
Advances	**777 218**	**114 453**	**662 765**
Investments securities and other investments	**174 931**	**105 292**	**69 640**
Accounts receivable	**4 672**	**4 672**	**-**
Amounts due by holding company and fellow subsidiary companies	**369 602**	**369 602**	**-**
Property and equipment	**49 747**	**-**	**49 747**
Deferred tax income asset	**13 462**	**-**	**13 462**
Total assets	**1 761 840**	**966 226**	**795 614**
EQUITY AND LIABILITIES			
Deposits	**1 461 815**	**1 454 498**	**7 318**
Creditors and accruals	**45 873**	**45 873**	**-**
Current tax liability	**12 536**	**12 536**	**-**
Amounts due to holding company and fellow subsidiary companies	**76 069**	**56 103**	**19 965**
Long term liabilities	**2 757**	**-**	**2 757**
Shareholders' equity	**162 790**	**-**	**162 790**
Total equity and liabilities	**1 761 840**	**1 569 010**	**192 830**

31 December 2015

M' 000	Carrying amount	Current	Non current
ASSETS			
Cash and cash equivalents	330 217	330 217	-
Advances	645 799	94 473	551 326
Investments securities and other investments	170 561	121 398	49 163
Accounts receivable	13 520	13 520	-
Amounts due by holding company and fellow subsidiary companies	276 459	241 565	34 894
Property and equipment	46 840	-	46 840
Deferred income tax asset	7 162	-	9 982
Total assets	1 490 558	801 173	692 205
EQUITY AND LIABILITIES			
Deposits	1 260 277	1 210 767	49 510
Creditors and accruals	52 903	52 903	-
Current tax liability	5 234	3 560	1 674
Amounts due to holding company and fellow subsidiary companies	35 748	15 776	19 972
Long term liabilities	3 067	-	3 067
Shareholders' equity	133 329	-	133 329
Total equity and liabilities	1 490 558	1 283 006	207 552

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation methodology
In terms of IFRS, the Bank is required to or elects to measure certain assets and liabilities at fair value.
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date i.e. an exit price. Fair value is therefore a market based measurement and when measuring fair value the Bank uses the assumptions that market participants would use when pricing an asset or liability under current market conditions, including assumptions about risk. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

Fair value measurements are determined by the Bank on both a recurring and non-recurring basis.

Recurring fair value measurements

Recurring fair value measurements are for assets and liabilities that IFRS requires or permits to be recognised at fair value and are recognised in the statement of financial position at reporting date. This includes financial assets, financial liabilities and non-financial assets, including commodities, which the Bank measures at fair value at the end of each reporting period.

Financial instruments

When determining the fair value of a financial instrument, with a bid or ask price (for example in a dealer market) the Bank uses the price within the bid-ask spread that is most representative of fair value in the circumstances.

Although not a requirement, the Bank uses the bid price for financial assets or the ask/offer price for financial liabilities where this best represents fair value.
When determining the fair value of a financial liability or the Bank's own equity instruments the quoted price for the transfer of an identical or similar liability or own equity instrument is used. Where this is not available, and an identical item is held by another party as an asset, the fair value of the liability or own equity instrument is measured using the quoted price in an active market of the identical item, if that price is available, or using observable inputs (such as the quoted price in an inactive market for the identical item) or using another valuation technique.
Where the Bank has any financial liability with a demand feature, such as demand deposits, the fair value is not less than the amount payable on demand, discounted from the first date that the amount could be required to be repaid where the time value of money is significant.

Non-financial assets
When determining the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use, is taken into account. This includes the use of the asset that is physically possible, legally permissible and financially feasible. In determining the fair value of the Bank's commodities, the highest and best use of the assets was their current use.

Non-recurring fair value measurements
Non-recurring fair value measurements are those triggered by particular circumstances and include the classification of assets and liabilities as non-current assets or disposal groups held for sale under IFRS 5, where fair value less costs to sell is the recoverable amount, IFRS 3 business combinations where assets and liabilities are measured at fair value at acquisition date, and IAS 36 impairments of assets where fair value less costs to sell is the recoverable amount. These fair value measurements are determined on a case by case basis as they occur within each reporting period.

Other fair value measurements
Other fair value measurements include assets and liabilities not measured at fair value but for which fair value disclosures are required under another IFRS, e.g. financial instruments at amortised cost. The fair value for these items is determined by using observable quoted market prices where these are available, or in accordance with generally acceptable pricing models such as a discounted cash flow analysis.

The Bank classifies assets and liabilities measured at fair value using a fair value hierarchy that reflects whether observable or unobservable inputs are used in determining the fair value of the item.
If this information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs. The valuation techniques employed by the Bank include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

Where a valuation model is applied and the Bank cannot mark-to-market, it applies a mark-to-model approach, subject to valuation adjustments. Mark-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input. The Bank will consider the following in assessing whether a mark-to-model valuation is appropriate:

- As far as possible, market inputs are sourced in line with market prices;
- Generally accepted valuation methodologies are consistently used for particular products unless deemed inappropriate by the relevant governance forums;
- Where a model has been developed in-house, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process;
- Formal change control procedures are in place;
- Awareness of the weaknesses of the models used and appropriate reflection in the valuation output;
- The model is subject to periodic review to determine the accuracy of its performance; and
- Valuation adjustments are only made when appropriate, for example, to cover the uncertainty of the model valuation.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)
Other fair value measurements (continued)

The Bank's fair value hierarchy has the following levels:

Level 1 - Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities and short trading positions;
Level 2 - Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, certain debt instruments, over the counter derivatives or exchange-traded derivatives where a market price is not available, deposits, other liabilities, Tier 2 liabilities and commodities which are not exchange-traded (i.e. derived from prices); and
Level 3 - Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the Bank are set out in the table below. This category includes specific loans and advances to customers, over the counter derivatives such as equity options, investments in debt instruments, and deposits such as credit linked notes.

Investments securities and other investments

Unlisted equities
The fair value of unlisted equities is determined using a price earnings (P/E) model. The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

Negotiable certificates of deposit
Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Other dated securities
Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

Derivatives
Market prices are obtained from trading exchanges, when the derivatives are traded. If not traded the following techniques are used:

- Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.

- Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.

- Option contracts are valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits
Fair value of deposits is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account. The bank also determines the fair value of the amortised cost book for disclosure purposes.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits that have a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

Advances
The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for credit spreads where necessary.

Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)
Investments securities and other investments (continued)
Derivatives (continued)

Advances (Continued)
The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

Long term liabilities
The fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

For non-recurring fair value measurements the fair value hierarchy classification and valuation technique applied in determining fair value will depend on the underlying asset or liability being measured. Where the underlying assets or liabilities are those for which recurring fair value measurements are required as listed in the table above, the technique applied and the inputs into the models would be in line with those as set out in the table. Where the underlying assets or liabilities are not items for which recurring fair value measurements are required, for example property and equipment or intangible assets. The fair value will be determined per transaction and details will be provided in the relevant notes when applicable.

During the current reporting period there were no changes in the valuation techniques used by the Bank.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table represents the recurring fair value measurements and fair value hierarchy of assets and liabilities of the Bank recognised at fair value in the statement of financial position.

31 December 2016			**Fair value hierachy**		
M' 000	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Recurring fair value measurements					
Investment securities and other investments	**174 931**	**174 931**	**-**	**174 931**	**-**
Total financial assets recognised at fair value	**174 931**	**174 931**	**-**	**174 931**	**-**

31 December 2015			Fair value hierachy		
M' 000	Carrying value	Carrying value	Level 1	Level 2	Level 3
Assets					
Recurring fair value measurements					
Investment securities and other investments	170 561	170 561	-	170 561	-
Total financial assets recognised at fair value	170 561	170 561	-	170 561	-

There were no transfers of financial instruments between Level 1 and Level 2 in the current year.

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

31 December 2016			**Fair value hierachy**		
M' 000	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Assets					
Gross advances	**777 218**	**796 771**	**-**	**104 710**	**692 061**
Total financial assets at amortised cost	**777 218**	**796 771**	**-**	**104 710**	**692 061**
Liabilities					
Deposits	**1 461 815**	**1 463 505**	**-**	**1 463 429**	**76**
Total financial liabilities at amortised cost	**1 461 815**	**1 463 505**	**-**	**1 463 429**	**76**

31 December 2015			Fair value hierachy		
M'000	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Gross advances	645 799	642 777	-	-	642 777
Total financial assets at amortised cost	645 799	642 777	-	-	642 777
Liabilities					
Deposits	1 260 277	1 263 604	-	1 263 604	-
Total financial liabilities at amortised cost	1 260 277	1 263 604	-	1 263 604	-

22. ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on Note 1 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis and according to when the assets are expected to be realised and the liabilities settled:

		31 December 2016					
M' 000	Note	**Loans and receivables**	**Available-for-sale financial assets**	**Financial liabilities at amortised cost**	**Non financial assets and liabilities**	**Financial liabilities at fair value through profit and loss (Level 2)**	**Total**
ASSETS							
Cash and cash equivalents	7	**372 207**	**-**	**-**	**-**	**-**	**372 207**
Investments securities and other investments	8	**-**	**174 931**	**-**	**-**	**-**	**174 931**
Advances	10	**777 218**	**-**	**-**	**-**	**-**	**777 218**
Accounts receivable	11	**4 672**	**-**	**-**	**-**	**-**	**4 672**
Amounts due by holding company and fellow subsidiary companies	12	**369 602**	**-**	**-**	**-**	**-**	**369 602**
Property and equipment	13	**-**	**-**	**-**	**49 747**	**-**	**49 747**
Deferred income tax asset	14	**-**	**-**	**-**	**13 462**	**-**	**13 462**
Total assets		**1 523 699**	**174 931**	**-**	**63 210**	**-**	**1 761 840**
LIABILITIES							
Creditors and accruals	15	**-**	**-**	**45 873**	**-**	**-**	**45 873**
Current tax liability		**-**	**-**	**-**	**12 536**	**-**	**12 536**
Deposits	16	**-**	**-**	**1 461 815**	**-**	**-**	**1 461 815**
Long term liabilities	17	**-**	**-**	**-**	**-**	**2 757**	**2 757**
Amounts due to holding company and fellow subsidiary companies	11	**-**	**-**	**76 069**	**-**	**-**	**76 069**
Total liabilities		**-**	**-**	**1 583 757**	**12 536**	**2 757**	**1 599 050**

		31 December 2015					
M' 000	Note	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Non financial assets and liabilities	Financial liabilities at fair value through profit and loss (Level 2)	Total
ASSETS							
Cash and cash equivalents	7	330 217	-	-	-	-	330 217
Investments securities and other investments	8	-	-	170 561	-	-	170 561
Advances	10	645 799	-	-	-	-	645 799
Accounts receivable	11	13 520	-	-	-	-	13 520
Amounts due by holding company and fellow subsidiary companies	12	276 459	-	-	-	-	276 459
Property and equipment	13	-	-	-	46 840	-	46 840
Deferred income tax asset	14	-	-	-	7 162	-	7 162
Total assets		1 265 995	-	170 561	54 002	-	1 490 558
LIABILITIES							
Creditors and accruals	15	-	-	52 903	-	-	52 903
Current tax liability		-	-	-	5 234	-	5 234
Deposits	16	-	-	1260 277	-	-	1260 277
Long term liabilities	17	-	-	-	-	3 067	3 067
Amounts due to holding company and fellow subsidiary companies	11	-	-	35 748	-	-	35 748
Total liabilities		-	-	1 348 928	5 234	3 067	1 357 229

23. RELATED PARTIES

The Bank defines related parties as:
i) The parent company;
ii) Subsidiaries and fellow subsidiaries;
iii) Associate companies;
iv) Joint ventures;
v) associates and joint ventures of the parent company and fellow subsidiaries
vi) groups that have significant influence over the parent. If an investor has significant influence over the parent, it is a related party not only of the parent but also of the subsidiaries, including the Bank. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to the Bank
vii) Post retirement benefit funds (Pension Funds);
viii) Key management personnel as the Bank's board of directors and Bank executive committee, including any entities which provide key management personnel services to the Bank;
ix) Close family members of key management personnel (individuals' spouses/domestic partner and children; domestic partner's children and dependents of individual or domestic partner);
x) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (viii) and (ix) above; and Groups that have significant influence over the parent.

The ultimate parent of First National Bank of Lesotho Limited is FirstRand Limited, incorporated in the Republic of South Africa.

M' 000	**31 December 2016**	31 December 2015
23.1 Balances with related Banks:		
FirstRand Limited - Investment account	**336 690**	244 347
First National Bank South Africa - Inter Company Debtors	**32 042**	31 587
FirstRand Limited - Nostro account	**869**	525
First National Bank South Africa - Multi loan account	**(56 103)**	(15 776)
Loans due to holding company and fellow subsidiary companies	**(19 965)**	(19 972)
Balances with related Banks	**293 533**	240 711
Interest received from/(paid to) related parties comprised the following:		
Interest received from related parties	**23 724**	23 770
Interest paid to related parties	**(2 422)**	(2 201)
Interest received from related parties	**21 302**	21 569
Other income received from/(paid to) related parties comprised the following:		
Income from cross border transactions	**12**	13 386
23.2 Key management personnel		
Total advances		
In normal course of business (mortgages, other, and instalment finance)		
Opening balance	**5 707**	4 565
Issued during year	**7 356**	3 751
Repayments during year	**(1 581)**	(1 364)
Transfer out due to resignation/retirement	**(3 577)**	(1 522)
Interest earned	**529**	277
Closing balance	**8 434**	5 707
Other loans		
Opening balance	**3 685**	3 192
Issued during year	**4 225**	1 740
Repayments during year	**(1 107)**	(309)
Transfer out due to resignation/retirement	**(322)**	(1 086)
Interest earned	**394**	148
Closing balance	**6 875**	3 685
Instalment finance		
Opening balance	**2 022**	1 373
Issued during year	**3 131**	2 011
Repayments during year	**(473)**	(1 055)
Transfer out due to resignation/retirement	**(3 255)**	(436)
Interest earned	**135**	129
Closing balance	**1 559**	2 022
No impairment has been recognised for all loans granted to key management (2016: nil). Loans are repayable over similar terms to non-related customers.		

23. RELATED PARTIES (continued)

M' 000	31 December 2016	31 December 2015
23.2 Key management personnel (continued)		
Key management compensation		
Salaries and other short term benefits	**19 053**	10 388
Share based payments	**14 001**	1 833
23.3 Expenses paid to holding company and fellow subsidiary companies		
Expenses paid to holding company and fellow subsidiary companies	**67 051**	55 761

24. SHARE CAPITAL AND SHARE PREMIUM

31 December 2016	No of ordinary shares	Issue Price M	Share capital M' 000	Share premium M' 000	Total M' 000
Authorised					
Ordinary shares - number ('000)	**50 000**	**-**	**-**	**-**	**50 000**
Issued					
Ordinary shares					
Opening balance	**39 124**	**1**	**39 124**	**9 109**	**48 233**
Issued during the period	**-**	**-**	**-**	**-**	**-**
- Issue costs	**-**	**-**	**-**	**-**	**-**
Closing balance	**39 124**	**1**	**39 124**	**9 109**	**48 233**
Analysis of total issued share capital closing balance:					
Ordinary issued share capital closing balance as above (Ordinary shares of M1 each)	**39 124**	**-**	**39 124**	**9 109**	**48 233**
Total issued share capital - closing balance	**39 124**	**1**	**39 124**	**9 109**	**48 233**
Disclosed on the face of the statement of financial position					
Ordinary share capital	**39 124**	**1**	**39 124**	**-**	**39 124**
Ordinary share premium	**-**	**-**	**-**	**9 109**	**9 109**
Total	**39 124**	**1**	**39 124**	**9 109**	**48 233**

31 December 2015	No of ordinary shares	Issue Price M	Share capital M' 000	Share premium M' 000	Total M' 000
Authorised					
Ordinary shares - number ('000)	50 000	-	-	-	50 000
Issued					
Ordinary shares					
Opening balance	39 124	1	39 124	9 109	48 233
Issued during the period	-	-	-	-	-
- Issue costs	-	-	-	-	-
Closing balance	39 124	1	39 124	9 109	48 233
Analysis of total issued share capital closing balance:					
Ordinary issued share capital closing balance as above (Ordinary shares of M1 each)	39 124	-	39 124	9 109	48 233
Total issued share capital - closing balance	39 124	1	39 124	9 109	48 233
Disclosed on the face of the statement of financial position					
Ordinary share capital	39 124	1	39 124	-	39 124
Ordinary share premium	-	-	-	9 109	9 109
Total	39 124	1	39 124	9 109	48 233

25. REMUNERATION SCHEMES

M' 000	31 December 2016	31 December 2015
The charge to profit or loss for share based payments is as follows:		
FirstRand conditional share plan	**2 460**	1 833
Charge to profit or loss	**2 460**	1 833

Conditional share scheme	
IFRS 2 treatment	Cash settled
Description	The conditional award comprises a number of full shares with no strike price.
Vesting conditions	These awards vest conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance set annually by the bank's remuneration committee.
Valuation methodology	The conditional share plan is valued using the Black Scholes option pricing model with a zero strike price. The scheme is cash settled and is therefore repriced at each reporting date.
Valuation methodology	
Dividend data	Management's estimates of future discrete dividends.
Market related	- Volatility is the expected volatility over the period of the plan and historical volatility was used as a proxy for expected volatility; and - The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
Vesting conditions	The weighted average forfeiture rate used is based on historical forfeiture data over all schemes and takes cognisance of whether the shares are in or out the money and the vesting date.

Corporate performance targets

The FirstRand Limited group remuneration committee sets the corporate performance targets (CPT's) based on the expected prevailing macroeconomic conditions anticipated during the performance period for the group's long-term incentive schemes, the conditional share plan and the conditional incentive plan. These criteria, which must be met or exceeded to enable vesting, vary from year to year, depending on the macro conditions expected to prevail over the vesting period.

In terms of the scheme rules, participants are not entitled to any dividends on their long term incentive (LTI) allocations during the performance period, nor do these accrue to them during the performance period.

The criteria for the current schemes are as follows:

<u>Expired Schemes</u>

2011 (CPTs met- vested in September 2014) - FirstRand's normalised EPS growth must equal or exceed South African nominal GDP plus 1.5%, measured on a cumulative basis from base year end 30 June 2011 to enable 100% vesting. In addition, NIACC must be positive over the three-year performance period. Should nominal GDP plus 1.5% not be achieved, the committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

2012 (CPTs met- vested in September 2015) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 3% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2012 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

<u>Currently Open</u>

2013 (vests in 2016) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP plus 1.5% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2013 to the financial year-end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

2014 (vests in 2017) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds the South African nominal GDP plus 2% growth on a cumulative basis over the life of the conditional award, from base year end 30 June 2014 to the financial year end immediately preceding the vesting date. In addition NIACC must be positive over the three-year performance period.

2015 (vests in 2018) - FirstRand Limited must achieve growth in normalised EPS which equals or exceeds South African nominal GDP plus 1% growth on a cumulative basis over a three year period, from base year ended 30 June 2015 to the financial year end immediately preceding the vesting date. In addition, ROE must be equal to or greater than cost of equity plus 5% over the three year performance period. Should nominal GDP plus 1% not be achieved, the remuneration committee may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

25. REMUNERATION SCHEMES (continued)

The significant weighted average assumptions used to estimate the fair value of options and share transactions granted and the IFRS 2 expenses for the year under review are:

31 December 2016	**Conditional share plan**
Weighted average strike price (Maloti)	**-**
Expected volatility (%)	**25**
Expected option life (years)	**3**
Expected risk free rate (%)	**7.36 - 8.06**
Expected dividend yield (%)	**-**
Expected dividend growth (%)	

31 December 2015	Conditional share plan
Weighted average strike price (Maloti)	-
Expected volatility (%)	25
Expected option life (years)	3
Expected risk free rate (%)	4.82 - 7.07
Expected dividend yield (%)	-
Expected dividend growth (%)	

25. REMUNERATION SCHEMES (continued)

31 December 2016		
Options and share awards outstanding	**Conditional share plan (FSR shares)***	
	Weighted average remaining life (Years)	**Outstanding options**
	0.781	**39 000**
	1.804	**37 000**
	2.812	**91 000**
		167 000
Total options and share awards - in the money (M'000)	**-**	**167 000**
Total options and share awards - out of the money (M'000)	**-**	**-**
Total options and share awards	**-**	**167 000**
Number of participants	**-**	**10**

*** The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional share plan.*

31 December 2015		
Options and share awards outstanding	Conditional share plan (FSR shares)*	
	Weighted average remaining life (Years)	Outstanding options
	0.790	60 529
	1.782	61 649
	2.806	47 683
		169 861
Total options and share awards - in the money (M'000)	-	169 861
Total options and share awards - out of the money (M'000)	-	-
Total options and share awards	-	169 861
Number of participants	-	9

* *The employees are awarded these shares, there is therefore no strike price associated with the awards made under the conditional share plan.*

25. REMUNERATION SCHEMES (continued)

31 December 2016	
M'000	**Conditional share plan (FSR shares)***
Number of options and share awards in force at the beginning of the year	**170 081**
Granted at prices ranging between (cents)	**-**
Weighted average (cents)	**-**
Number of options and share awards granted during the year	**100 000**
Fair value per share on grant date	**-**
**Number of options and share awards transferred during the year ** **	**(56 000)**
Granted at prices ranging between (cents)	**-**
Weighted average (cents)	**-**
Number of options and share awards exercised/released during the year	**(32 000)**
Market value range at date of exercise / release (cents)	**4 725 - 4 725**
Weighted average share price for the year (cents)	**4 725**
Number of options and share awards cancelled/lapsed during the year	**(15 000)**
Granted at prices ranging between (cents)	**-**
Weighted average (cents)	**-**
Number of options in force at the end of the year	**167 081**
Granted at prices ranging between (cents)	**-**
Weighted average (cents)	**-**

** The grant date fair value was not determined as these share awards are cash settled and are remeasured to fair value at each reporting date.*

*** These relate to options and share awards for employees transferred between legal entities within the FirstRand Limited Group.*

25. REMUNERATION SCHEMES (continued)

	31 December 2015
M'000	Conditional share plan (FSR shares)*
Number of options and share awards in force at the beginning of the year	138 790
Granted at prices ranging between (cents)	-
Weighted average (cents)	-
Number of options and share awards granted during the year	47 683
Fair value per share on grant date	-
Number of options and share awards transferred during the year **	10 379
Granted at prices ranging between (cents)	-
Weighted average (cents)	-
Number of options and share awards exercised/released during the year	(26 991)
Market value range at date of exercise / release (cents)	5 073 - 5 073
Weighted average share price for the year (cents)	5 073
Number of options and share awards cancelled/lapsed during the year	-
Granted at prices ranging between (cents)	-
Weighted average (cents)	-
Number of options in force at the end of the year	169 861
Granted at prices ranging between (cents)	-
Weighted average (cents)	-